MCI

MCI Communications Corporation
1801 Pennsylvania Avenue, NW
Washington, DC 20006
202 887 2375

Kimberly M. Kirby
Senior Manager
FCC Affairs

EX PARTE OR LATE FILED

RECEIVED

JAN 14 1997

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

EX PARTE

January 14, 1997

Mr. William F. Caton, Acting Secretary
Federal Communications Commission
1919 M Street, NW Room 222
Washington, DC 20554

Re: Application of Ameritech Michigan Pursuant to Section 271 of the Telecommunications Act of 1996 to Provide In-Region, InterLATA Services in Michigan CC Docket No. 97-1; In The Matter of Access Charge Reform CC Docket No. 96-262

Dear Mr. Caton:

On Tuesday, January 14, Jonathan Sallet, Chief Policy Counsel for MCI, delivered a speech to the Competitive Policy Institute's forum on access charge reform. Please file Mr. Sallet's remarks as part of the record in the above captioned proceedings as requested by Mr. Joseph Farrell, Chief Economist, Office of Plans and Policy.

Two copies of this Notice are being submitted to the Secretary of the FCC in accordance with Section 1.1206(a)(1) of the Commission's rules.

Sincerely,

Kimberly M. Kirby

Kimberly M. Kirby

Attachment

cc: Chairman Reed Hundt
Mr. Joseph Farrell

No. of Copies rec'd 0+1
List ABCDE

****Final Draft****
Date: 1/14/97
Speaker: Jonathan B. Sallet, Chief Policy Counsel, MCI
Event: Competitive Policy Institute
Location:

Today you'll talk about "Access Charges: Completing the Trilogy."

That's the initial part of the overall question: How quickly are we advancing towards the goal of true competition, competition that serves the best interests of consumers?

It's been only a year since the Telecommunications Act of 1996 was signed into law, offering the promise of a future in which local and long distance telephone companies would compete in each other's markets; wireless and cable companies would become part of the mix; and consumers would reap the rewards of competition.

But think how much the competitive environment has changed – and not for the better.

Rather than competing against one another, the RBOCs are merging, resulting in fewer players. Wireless has yet to offer a real competitor to the local wired network. The RBOCs seem less interested in competing with cable. Cable companies are walking away from telephony.

And, consistent with the trend towards fewer competitors, the incumbent telephone companies are resisting competition.

And, consistent with the trend towards fewer competitors, the incumbent telephone companies are resisting competition.

The simple fact is that long distance companies like MCI now bear many of the hopes of those who expect new entrants to bring local service to a broad range of customers.

That means we must look at the current debate over the nature of the long distance market and answer two important questions:

1. What will happen to the ability of companies like MCI to compete in local? And
2. What will happen to the choice that consumers now enjoy in long distance?

The widening of the debate was an inevitable development, because in return for opening the door to competition in local, the Act promised regional Bell companies the opportunity to compete in long distance in their regions when statutory conditions are met.

The problem is that the RBOCs want to keep potential competitors at bay in the local markets, while moving into long distance as soon as possible. And in their zeal to thwart free and fair competition in local markets, some RBOCs are working tirelessly to spread misinformation about the long distance market.

Their tactics remind me of something the Scottish writer Andrew Lang once said about an antagonist: "He uses statistics as a drunken man uses lamposts – for support, rather than illumination."

So I'd like to set the record straight, by making use of numbers in a way that sheds light on the real truth about current market conditions.

Consider the competitive circumstances present in just one state, not exactly chosen by random -- that is to say Michigan.

There's been a lot of talk about Michigan precipitated by the Ameritech application and there's a lot to say about it. You know our view; that the application does not meet the requirements of facilities-based competition, the competitive checklist or the public-interest standard.

But I want to take a minute to talk about the market structure. Because I think it helps to illustrate the nature of the challenge to competition.

Of course, Ameritech has more than 99% of the market share of the local customers in its service region in Michigan. That's about 4.9 million phone lines.

Still, to listen to Ameritech, you might think that this monopoly in local services is somehow balanced by the big telephone companies that offer long-distance service.

But it's not. Consider, for a minute, the local and long-distance markets in Ameritech's Michigan territory as if they were one market. For a number of very practical reasons, that's not now the case, but assume, just for a moment, that they do form one single market for telephone services.

In that market, Ameritech now controls 79% of all of the revenue collected by telephone companies. That includes the revenue kept by ATT, MCI, Sprint and other long-distance companies, and rightly attributes to Ameritech the revenue that it collected from access charges.

79% is a big part of the market. Now, suppose that Ameritech were permitted to enter the long-distance market and showed the kind of growth in market share that SNET is reported to have achieved in Connecticut. Well, then, Ameritech's market share would grow to 85%.

Add an assumption the other way; that in the same timeframe new entrants would increase their share of the local market by a full order of magnitude. Ameritech would still have over 80% of the market's revenues.

These statistics give you, I think, a sense of proportion. But even they do not tell the whole story. Because

Ameritech would control not only 80% of the market, but a facility absolutely essential if new entrants are to be able to reach all of their customers with alternative service -- the local telephone network.

Congress recognized that this would be the case and provided that new entrants would have access to unbundled network elements and that the price for those elements would be based on cost.

Many people believe that once arbitration is completed, the conditions for open competition are in place. Not true. In Michigan, as in Georgia, Illinois, and a long list of other states, issues – critical issues -- have yet to be resolved. The lion's share of rates and terms established in arbitrations are only interim, not permanent. And a whole host of OSS (order entry and interface issues) must still be settled.

The problem of interim rates is especially significant. Almost all states are using interim rates. That's not surprising given the recalcitrance of local incumbents and the strict deadlines of the Telecom Act.

But those interim rates do not comport with the requirements of the Telecom Act that unbundled elements be based on "cost" and resale discounts be based on "avoided cost". They do not satisfy 271. They do not permit new entrants to establish long-term strategies to enter local markets.

In fact, Ameritech continues its efforts to slow competition in Michigan.

Two state courts, one federal district court and a federal appellate court have ordered Ameritech to stop requiring Michigan customers to dial a cumbersome, five-digit access code if they want to use a competing telephone company to make in-state toll calls.

Despite court order after court order, Ameritech refuses to implement the Michigan Public Service Commission's directive to drop the extra numbers and establish what is known as intraLATA dialing parity.

So Ameritech's claim that the local telephone market in Michigan is open and competitive is premature and misleading.

Once again, please keep in mind that the basic principle of the Telecommunications Act of 1996 is that local monopolies should enter the competitive long distance market only after their local markets have been opened to real, vibrant competition.

Which brings me to the topic at hand, because Ameritech continues to collect grossly inflated access fees from long distance customers, fees that far exceed the actual cost of connecting long distance calls to the local monopoly network.

Those fees provide Ameritech with a rich source of subsidies that it can use to undercut real competition in the local telephone market and distort the long distance market.

Ameritech is not alone. Bloated access charges by the RBOCs drive up the cost of domestic long distance calls for all American consumers.

A recent report by the FCC states that 40 cents of every long distance dollar goes to cover access. Based on the same forward-looking methodology endorsed by the FCC in its Interconnection Order and the Joint Board in the Universal Service Recommendations, that access charge should amount to a mere 5 cents.

The result is that the average consumer pays about 6 dollars a month too much per line for interstate access.

That 6 dollars a month is important to consumers – and rightly so. Unfortunately, inflated access charges are important to the RBOCs – and they won't give them up without a fight. The RBOCs collect about $21 billion in access fees from long distance providers like MCI.

The RBOCs have charged that long distance carriers have not passed on to consumers decreases in access charges. Once again – not true.

In fact, we've doubled the benefit to consumers of these rate increases. The FCC states that "declines in access cost per minute account for about half the declines in toll rates over the period 1992 to 1995."

In fact, with 500 companies competing for long distance business, consumers are certain to receive the benefits of access reductions. Any carrier that fails to pass on savings generated by access reductions will see its customers leave in droves.

This isn't hyperbole – it's fact. In 1995, some 37.5 million residential customers changed their long distance carriers (compared to about zero in local exchange service). More and more American consumers are taking advantage of long distance competition every day.

MCI has made a pledge to its customers. We have promised that "when the Regional Bells' overcharges for access are abolished MCI will pass on the savings to our customers."

Long distance rates have come very close to cost. Although there will be a continuation of the downward trend, fueled by innovation and productivity improvements, the fact is that we are facing higher costs in marketing and servicing our customers and in investing in our networks to add more intelligent, enhanced products. In a competitive market place, higher costs influence prices – especially when these costs are piled on to an artificially-high cost like access charges.

The key difference between a competitive market like long distance and a monopoly market like local exchange service is that in a competitive market prices move with costs. In a monopoly market they don't.

Recently, the FCC released a report that confirmed what we've been saying all along: consumers are paying less for long distance phone calls.

The FCC studied the rates consumers actually pay – including all discounts and promotions. The report found that domestic revenue per minute declined by just over 12 percent from 1992 to 1995.

Adjusted for inflation, that decline is even greater – nearly 19 percent.

Competition in the long distance market has encouraged innovative rate plans and new promotions that substantially reduce long distance calling costs. Promotions and plans helped push down residential long distance rates more than 4 percent between 1995 and 1996, after taking inflation into account.

To get into local markets, new competitors like MCI must build an entirely new infrastructure. The RBOCs have a

$100 billion headstart in network construction, and a 100 year lead.

We at MCI are confident that we can quickly erase that lead. To that end, we committed a billion dollars in 1996, and another $700 million in 1997 to build local facilities.

But the fact is that new competitors in local, face real and costly challenges that the RBOCs won't encounter as they enter the long distance market.

MCI is prepared to enter local service markets. We are investing today, and offering service to business customers in a number of markets. Already we are offering local service to residential customers in California. MCI has millions of American business and residential customers who depend on us for long distance service, Internet access and a host of other products. We fully intend to become their one source for communications, and in the process bring them the improved service, innovation and savings competition in local service is bound to generate.

That's just common sense. Will Rogers, the American heartland's foremost sage, once said that "rumors travel fast, but the truth stays put a lot longer." The truth is that competition works for the American consumer. It always has. And it always will.

That's the promise of the Telecommunications Act. It's a promise MCI is determined to see fulfilled.

Thank you.